

Message Text

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62

ACTION ARA-20

INFO OCT-01 ISO-00 SPC-03 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 PA-04 PRS-01 USIA-15 AGR-20 DRC-01 /178 W

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R 241726Z JAN 74

FM AMEMBASSY QUITO

TO SECSTATE WASHDC 9783

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E.O. 11652: N/A

TAGS: EAGR, EC

SUBJ: GOE TO ASSUME GREATER CONTROL OVER RICE AND SUGAR MARKETING

1. THE GOE HAS DESIGNATED EMPRESA NACIONAL DE PRODUCTOS VITALES (ENPROVIT) AS MONOPOLY BUYER OF ALL RICE AND SUGAR FOR DOMESTIC CONSUMPTION. IN ADDITION ENPROVIT WHICH MANAGES A RAPIDLY GROWING NUMBER OF GOVERNMENT STORES WAS RECENTLY GIVEN AUTHORITY TO RETAIL UP TO 50 PERCENT OF ECUADOR'S SUGAR NEEDS. WHEN ENPROVIT WAS FIRST ESTABLISHED ITS SALES WERE LIMITED TO 100 TONS/WEEK. IN RECENT MONTHS ACTUAL SALES REACHED SEVERAL TIMES THIS LEVEL.

2. ACCORDING TO THE MINISTER OF AGRICULTURE, ENPROVIT WILL ASSUME GREATER CONTROL OF THE SUGAR INDUSTRY WITHIN 10 DAYS WHILE THAT OVER THE RICE INDUSTRY CANNOT BE EFFECTED UNTIL EARLY MAY BY WHICH TIME ENPROVIT WILL HAVE DEVELOPED THE NECESSARY MARKETING INFRASTRUCTURES. SUGAR AND RICE WHICH ENPROVIT DOES NOT RETAIL THROUGH ITS OWN STORES WILL BE ALLOCATED TO TRADITIONAL BUYERS WHO MUST APPLY FOR MONTHLY QUOTAS.

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3. THERE HAS BEEN CONSIDERABLE PRICE SPECULATION AND HOARDING OF RICE AND SUGAR, TWO VERY IMPORTANT ITEMS IN THE ECUADOREAN DIET. IN THE CASE OF SUGAR THE HOARDING WAS PROBABLY IN ANTICIPATION OF A POSSIBLE PRICE RISE. IT WAS AGGRAVATED BY AN ALREADY TIGHT SUPPLY-DEMAND SITUATION. ECUADOREAN PRODUCTION IS AT BEST ABOUT EQUAL TO DOMESTIC CONSUMPTION AND ECUADOR'S U.S. ASSIGNED IMPORT QUOTA. IF THE SCARCITY IN SUGAR WAS DUE TO HOARDING IN ANTICIPATION OF A PRICE RISE, THE HOARDED SUGAR SHOULD SOON REAPPEAR ON THE DOMESTIC MARKET, SINCE THE GOE RECENTLY CHOSE THE POLITICALLY MUCH MORE ACCEPTABLE ALTERNATIVE OF REDUCING THE LEVEL OF MILL EXPORT TAXES BY 50 PERCENT OF THEIR CURRENT LEVEL (24.75 PERCENT) FOR SALES TO THE U.S., THEIR ONLY MARKET FOR THE PAST TWO YEARS. THE GOE IS CONSIDERING COMPLETE ELIMINATION OF ALL EXPORT SALES TAXES IN EXCHANGE FOR A SUGAR INDUSTRY GUARANTEE THAT THE INDUSTRY WILL EXPAND PRODUCTION BY A DESIGNATED AMOUNT OVER THE NEXT FEW YEARS.

4. DUE TO EXCESSIVELY HEAVY RAINS IN EARLY 1973 WHICH CAUSED EXTENSIVE EROSION AND FLOODING IN MAJOR PRODUCING AREAS, RICE SUPPLIES HAVE BEEN EXTREMELY TIGHT FOR NEARLY A YEAR. DURING THIS PERIOD THERE HAS BEEN CONSIDERABLE PRICE SPECULATION AND GOUGING. IN CONTRAST TO 1973, THE MAJOR RICE PRODUCING AREAS ARE NOW SUFFERING A SHORTFALL IN PRECIPITATION. SHOULD THIS SITUATION CONTINUE MUCH LONGER THE 1974 "WINTER" RAINY SEASON RICE CROP COULD BE SERIOUSLY REDUCED, THUS THE PROSPECT OF CONTINUED PRICE SPECULATION FOR RICE.

5. COMMENT: WE BELIEVE THAT THE GOE TOOK THIS STEP IN ORDER TO INCREASE ITS INFORMATION ABOUT AVAILABILITIES OF THESE TWO COMMODITIES IN TIGHT SUPPLY AND TO PROVIDE AN INSTRUMENT OF CONTROL IF THAT SHOULD BE NECESSARY. IT IS GENERALLY BELIEVED THE DECISION TO INCREASE GOE'S CONTROL OVER THE MARKETING OF RICE AND SUGAR WAS A RELUCTANT ONE AND DOES NOT PORTEND A GENERAL GOVERNMENT TAKE OVER OF THE MARKETING OF BASIC COMMODITIES. HOWEVER, THIS MOVE COMBINED WITH REASONABLY BROAD GOE SUPPORT FOR RAPID EXPANSION IN ENPROVIT'S OPERATIONS INDICATES HOW SERIOUSLY CONCERNED THE GOE IS OVER CURRENT LIMITED OFFICIAL USE

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FOOD SHORTAGES, THEIR RESULTANT INFLATIONARY PRESSURES, AND THE POSSIBLE POLITICAL REPERCUSSIONS OF NOT DEALING WITH THESE PROBLEMS.
BREWSTER

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Message Attributes

Automatic Decaptioning: X
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Copy: SINGLE
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